

**REPORT OF THE AUDIT OF THE
CARTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT

June 30, 2008

The Auditor of Public Accounts has completed the audit of the Carter County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Carter County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,758,728 as of June 30, 2008. The fiscal court had unrestricted net assets of \$1,462,163 in its governmental activities as of June 30, 2008, with total net assets of \$5,714,135. In its business-type activities, total cash and cash equivalents were \$26,858 with total net assets of \$44,593. The fiscal court had total debt principal as of June 30, 2008 of \$12,247,377 with \$521,549 due within the next year.

Report Comments:

- 2008-01 The Fiscal Court Should Pay All Invoices Within (30) Working Days As Required By KRS 65.140 And Improve Internal Controls Over Expenditures
- 2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
CARTER COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS	39
NOTES TO FINANCIAL STATEMENTS	41
BUDGETARY COMPARISON SCHEDULES	59
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	64
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	67
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	71
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	75
COMMENTS AND RECOMMENDATIONS.....	79
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined to be necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
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Members of the Carter County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carter County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2009, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Fiscal Court Should Pay All Invoices Within (30) Working Days As Required By KRS 65.140 And Improve Internal Controls Over Expenditures
- 2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 24, 2009

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Charles Wallace	County Judge/Executive
Lovell Carper	Magistrate
Judy Roark	Magistrate
Millard Cordle	Magistrate
William Webb	Magistrate
James Wilburn	Magistrate

Other Elected Officials:

Robert Miller	County Attorney
Randy Binion	Jailer
Mike Johnston	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George Sparks	Coroner

Appointed Personnel:

Cindy Lowe	County Treasurer
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CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,462,163	\$ 26,858	\$ 1,489,021
Total Current Assets	1,462,163	26,858	1,489,021
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	942,900		942,900
Buildings	11,603,648		11,603,648
Equipment	492,650		492,650
Vehicles	218,849		218,849
Vehicles and Equipment		19,244	19,244
Infrastructure	3,239,793		3,239,793
Total Noncurrent Assets	16,497,840	19,244	16,517,084
Total Assets	17,960,003	46,102	18,006,105
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	125,000		125,000
Revenue Bonds	295,000		295,000
Financing Obligations	100,040	1,509	101,549
Total Current Liabilities	520,040	1,509	521,549
Noncurrent Liabilities:			
General Obligation Bonds	5,425,000		5,425,000
Revenue Bonds	5,820,000		5,820,000
Financing Obligations	480,828		480,828
Total Noncurrent Liabilities	11,725,828		11,725,828
Total Liabilities	12,245,868	1,509	12,247,377
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,251,972	17,735	4,269,707
Unrestricted	1,462,163	26,858	1,489,021
Total Net Assets	\$ 5,714,135	\$ 44,593	\$ 5,758,728

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,449,441	\$	\$ 311,813	\$
Protection to Persons and Property	2,526,332	101,289	2,676,838	
General Health and Sanitation	202,040			
Recreation and Culture	289,718			457,321
Roads	1,270,505	134,739	1,786,487	
Interest on Long Term Debt	567,128			
Total Governmental Activities	7,305,164	236,028	4,775,138	457,321
Business-type Activities:				
Jail Canteen	33,019	38,007		
Total Business-type Activities	33,019	38,007		
Total Primary Government	\$ 7,338,183	\$ 274,035	\$ 4,775,138	\$ 457,321

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu Tax Payments

Excess Fees

Licenses and Permits

Interest

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,137,628)	\$	\$ (2,137,628)
251,795		251,795
(202,040)		(202,040)
167,603		167,603
650,721		650,721
(567,128)		(567,128)
✓ (1,836,677)		(1,836,677)
	4,988	4,988
	4,988	4,988
(1,836,677)	4,988	(1,831,689)
372,202		372,202
49,047		49,047
113,696		113,696
1,094,107		1,094,107
13,700		13,700
81,390		81,390
37,813		37,813
15,715		15,715
785,437		785,437
2,563,107		✓ 2,563,107
726,430	4,988	731,418
4,987,705	39,605	5,027,310
\$ 5,714,135	\$ 44,593	\$ 5,758,728

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Enhanced 911 Fund
ASSETS					
Cash and Cash Equivalents	\$ 346,001	\$ 538,085	\$ 60,395	\$ 109,332	\$ 191,345
Total Assets	<u>346,001</u>	<u>538,085</u>	<u>60,395</u>	<u>109,332</u>	<u>191,345</u>
FUND BALANCES					
Reserved for:					
Encumbrances	46,627	7,217	36,874	51,107	1,641
Unreserved:					
General Fund	299,374				
Special Revenue Funds		530,868	23,521	58,225	189,704
Capital Projects Funds					
Total Fund Balances	<u>\$ 346,001</u>	<u>\$ 538,085</u>	<u>\$ 60,395</u>	<u>\$ 109,332</u>	<u>\$ 191,345</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 203,020</u>	<u>\$ 13,985</u>	<u>\$ 1,462,163</u>
<u>203,020</u>	<u>13,985</u>	<u>1,462,163</u>
		143,466
		299,374
	13,985	816,303
<u>203,020</u>	<u></u>	<u>203,020</u>
<u>\$ 203,020</u>	<u>\$ 13,985</u>	<u>\$ 1,462,163</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,462,163
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	21,410,837
Accumulated Depreciation	(4,912,997)
Debt is Not Due and Payable in the Current Period and, Therefore, is Not	
Reported in the Funds.	
Financing Obligations	(580,868)
Bonded Debt	(11,665,000)
Net Assets Of Governmental Activities	<u>\$ 5,714,135</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,422,727	\$	\$	\$
In Lieu Tax Payments	13,700			
Excess Fees	81,390			
Licenses and Permits	37,813			
Intergovernmental	311,813	1,786,487	1,497,618	944,158
Charges for Services	87,163	134,739	14,126	
Miscellaneous	289,174	177,546	248,493	32,131
Interest	1,730	4,900	513	1,052
Total Revenues	<u>2,245,510</u>	<u>2,103,672</u>	<u>1,760,750</u>	<u>977,341</u>
EXPENDITURES				
General Government	1,054,529			13,422
Protection to Persons and Property	17,651		1,567,917	418,009
General Health and Sanitation	60,589			140,081
Recreation and Culture				289,718
Roads		1,601,448		1,155
Debt Service	17,847	257,668	395,318	24,271
Administration	375,214	210,498	397,648	142,820
Total Expenditures	<u>1,525,830</u>	<u>2,069,614</u>	<u>2,360,883</u>	<u>1,029,476</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>719,680</u>	<u>34,058</u>	<u>(600,133)</u>	<u>(52,135)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	79,004	150,000	543,862	275,000
Transfers To Other Funds	(818,862)			(150,000)
Total Other Financing Sources (Uses)	<u>(739,858)</u>	<u>150,000</u>	<u>543,862</u>	<u>125,000</u>
Net Change in Fund Balances	(20,178)	184,058	(56,271)	72,865
Fund Balances - Beginning	366,179	354,027	116,666	36,467
Fund Balances - Ending	<u>\$ 346,001</u>	<u>\$ 538,085</u>	<u>\$ 60,395</u>	<u>\$ 109,332</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Enhanced 911 Fund	Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 202,417	\$	\$ 3,908	\$ 1,629,052
			13,700
			81,390
			37,813
123,738	568,645		5,232,459
			236,028
38,093			785,437
1,395	6,078	47	15,715
<u>365,643</u>	<u>574,723</u>	<u>3,955</u>	<u>8,031,594</u>
			1,067,951
277,424		3,456	2,284,457
			200,670
			289,718
			1,602,603
	566,645		1,261,749
46,604	2,613		1,175,397
<u>324,028</u>	<u>569,258</u>	<u>3,456</u>	<u>7,882,545</u>
<u>41,615</u>	<u>5,465</u>	<u>499</u>	<u>149,049</u>
			1,047,866
		(79,004)	(1,047,866)
		(79,004)	
41,615	5,465	(78,505)	149,049
149,730	197,555	92,490	1,313,114
<u>\$ 191,345</u>	<u>\$ 203,020</u>	<u>\$ 13,985</u>	<u>\$ 1,462,163</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 149,049
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	873,006
Depreciation Expense	(794,896)
Asset Disposal, Net Value	(195,350)
The Issuance of Long-Term and Short-Term Debt (e.g. bonds, leases) Provides Current Financial Resources to Governmental Funds, while Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These transactions, however, have no effect on net assets.	
Financing Obligation Payments	294,621
Bond Payments	400,000
Change in Net Assets of Governmental Activities	<u>\$ 726,430</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 26,858
Total Current Assets	<u>26,858</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	57,673
Less Accumulated Depreciation	<u>(38,429)</u>
Total Noncurrent Assets	<u>19,244</u>
Total Assets	<u>46,102</u>
Current Liabilities	
Financing Obligation	<u>1,509</u>
Total Current Liabilities	<u>1,509</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	17,735
Unrestricted	<u>26,858</u>
Total Net Assets	<u><u>\$ 44,593</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 38,007
Total Operating Revenues	<hr/> 38,007 <hr/>
Operating Expenses	
Educational and Recreational	5,566
Depreciation Expense	9,408
Salaries - Bookkeeping	5,143
Personal Care	5,187
Equipment	1,772
Miscellaneous	5,943
Total Operating Expenses	<hr/> 33,019 <hr/>
Operating Income	<hr/> 4,988 <hr/>
Change In Net Assets	4,988
Total Net Assets - Beginning (Restated)	<hr/> 39,605 <hr/>
Total Net Assets - Ending	<hr/> \$ 44,593 <hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 38,007
Payments to Vendors	(23,611)
Net Cash Provided By Operating Activities	<u>14,396</u>
Cash Flows From Financing Activities	
Principal Payments on Note Payable	(1,829)
Net Cash Provided by Financing Activities	<u>(1,829)</u>
Net Decrease in Cash and Cash Equivalents	12,567
Cash and Cash Equivalents - July 1, 2007	<u>14,291</u>
Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 26,858</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 4,988
Plus: Depreciation Expense	<u>9,408</u>
Total Cash Used By Operating Activities	<u><u>\$ 14,396</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 14,034
Total Assets	<u>14,034</u>
Liabilities	
Amounts Held In Custody For Others	<u>14,034</u>
Total Liabilities	<u>14,034</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	41
NOTE 2.	DEPOSITS	47
NOTE 3.	CAPITAL ASSETS	48
NOTE 4.	SHORT-TERM DEBT	49
NOTE 5.	LONG-TERM DEBT	50
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	56
NOTE 7.	INSURANCE	56
NOTE 8.	PRIOR PERIOD ADJUSTMENTS	56

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Carter County Justice Center Corporation

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Carter County Elected Officials

Kentucky law provides for election of the officials noted below from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Carter County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Enhanced 911 Fund - This fund accounts for the County's emergency operations and is supported primarily from telephone taxes.

Justice Center Corporation Fund - This fund accounts for the activities of the Carter County Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation fund issued the debt to build the justice center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major fund: Forestry Fund, Governor's Surplus Spending Fund, and Bond Defeasance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Enhanced 911 Fund, Forestry Fund, Governor's Surplus Spending Fund and Bond Defeasance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30, following delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, non-depreciable land improvements, and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	25-40
Buildings	\$ 25,000	30-40
Building Improvements	\$ 25,000	15-25
Machinery and Equipment	\$ 2,500	5-10
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	15-25

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Department for Local Government does not require this fund to be budgeted.

J. Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Ambulance Service is considered a related organization of the Carter County Fiscal Court.

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky Counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Total Capital Assets Not Being Depreciated	942,900			942,900
Capital Assets, Being Depreciated:				
Buildings	14,055,727			14,055,727
Equipment	1,419,835			1,419,835
Vehicles	990,368	36,183		1,026,551
Infrastructure	3,129,001	836,823		3,965,824
Total Capital Assets Being Depreciated	19,594,931	873,006		20,467,937
Less Accumulated Depreciation For:				
Buildings	(2,116,870)	(335,209)		(2,452,079)
Equipment	(813,899)	(113,286)		(927,185)
Vehicles	(725,689)	(82,013)		(807,702)
Infrastructure	(461,643)	(264,388)		(726,031)
Total Accumulated Depreciation	(4,118,101)	(794,896)		(4,912,997)
Total Capital Assets, Being Depreciated, Net	15,476,830	78,110		15,554,940
Governmental Activities Capital Assets, Net	<u>\$ 16,419,730</u>	<u>\$ 78,110</u>	<u>\$ 0</u>	<u>\$ 16,497,840</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 57,673	\$	\$	\$ 57,673
Total Capital Assets Being Depreciated	57,673			57,673
Less Accumulated Depreciation For:				
Vehicles and Equipment	(29,021)	(9,408)		(38,429)
Total Accumulated Depreciation	(29,021)	(9,408)		(38,429)
Total Capital Assets, Being Depreciated, Net	28,652	(9,408)		19,244
Business-Type Activities Capital Assets, Net	\$ 28,652	\$ (9,408)	\$ 0	\$ 19,244

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 206,093
Protection to Persons and Property	266,158
General Health and Sanitation	7,970
Roads, Including Depreciation of General Infrastructure Assets	<u>314,675</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 794,896</u>

Business-Type Activities

Jail Canteen	<u>\$ 9,408</u>
Total Depreciation Expense - Business Activities	<u>\$ 9,408</u>

Note 4. Short-term Debt

A. Road Truck

On April 9, 2007, the fiscal court entered into a one-year leasing agreement with the Citizens National Bank of Grayson for the purchase of a truck for the road department. The lease was paid in full during the fiscal year.

B. Changes In Short-term Liabilities

Short-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 195,350	\$	\$ 195,350	\$	\$
Governmental Activities					
Short-term Liabilities	<u>\$ 195,350</u>	<u>\$ 0</u>	<u>\$ 195,350</u>	<u>\$ 0</u>	<u>\$ 0</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt

A. Improvement Bonds, Series 2001

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on November 1, 2001, and the principal payments commenced on May 1, 2003. As of June 30, 2008, the principal amount outstanding was \$5,550,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 125,000	\$ 275,603
2010	130,000	270,353
2011	135,000	264,763
2012	140,000	258,890
2013	145,000	252,660
2014-2018	855,000	1,153,633
2019-2023	1,100,000	922,518
2024-2028	1,440,000	608,081
2029-2032	1,480,000	194,750
Totals	<u>\$ 5,550,000</u>	<u>\$ 4,201,251</u>

B. First Mortgage Revenue Bonds, Series 2002

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Justice Center by the Administrative Office of the Courts. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the Administrative Office of Courts to do so.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2002 (Continued)

The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on March 1, 2003, and the principal payments commenced on March 1, 2004. As of June 30, 2008, the principal amount outstanding was \$6,115,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 295,000	\$ 272,098
2010	310,000	261,118
2011	320,000	249,698
2012	335,000	237,218
2013	350,000	223,818
2014-2018	1,990,000	881,429
2019-2023	2,515,000	377,122
Totals	<u>\$ 6,115,000</u>	<u>\$ 2,502,501</u>

C. Kentucky Area Development District Financing Program

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the lease were used to fund a portion of the construction costs associated with the new Justice Center. A principal payment of \$170,000 was paid on May 28, 2004 with the remaining principal due annually commencing on December 1, 2006. The agreement requires semiannual interest payments at an average rate of 3.86 percent. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. The principal outstanding as of June 30, 2008 was \$170,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 15,000	\$ 6,383
2010	15,000	5,981
2011	10,000	5,610
2012	15,000	5,198
2013	10,000	4,759
2014-2018	55,000	17,686
2019-2023	50,000	5,980
Totals	<u>\$ 170,000</u>	<u>\$ 51,597</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

D. Sheriff's Vehicles - 2005

On January 20, 2006, the fiscal court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of vehicles for the sheriff's office. The lease term is for four years, with the balance to be paid in full on July 20, 2009. The balance of the financing obligation at June 30, 2008 was \$27,914. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 10,000	\$ 683
2010	17,914	55
Totals	<u>\$ 27,914</u>	<u>\$ 738</u>

E. Road Equipment

In October 2005, the county entered into a financing obligation agreement for \$148,034 with Kentucky Association of Counties Leasing Trust Program for the purchase of road equipment. Terms of the agreement stipulate a three-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on July 20 of each year to end on January 20, 2008. As of June 30, 2008, the principal balance was \$48,034. Obligations for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 48,034	\$ 205
Totals	<u>\$ 48,034</u>	<u>\$ 205</u>

F. Grahn Fire Department - Fire Truck

On March 7, 2005, the Carter County Fiscal Court entered into a \$93,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a ten-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2015. As of June 30, 2008, the principal balance remaining was \$75,391. Future principal and interest requirements are:

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

F. Grahn Fire Department - Fire Truck (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 7,395	\$ 2,604
2010	7,682	2,318
2011	7,983	2,013
2012	8,291	1,709
2013	8,614	1,387
2014-2016	35,426	1,810
Totals	<u>\$ 75,391</u>	<u>\$ 11,841</u>

The Grahn Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Grahn Fire Department is under no binding agreement to make the required payments.

G. Hitchins Fire Department - Fire Pumper

On June 22 2006, the Carter County Fiscal Court entered into a \$140,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire pumper. Terms of the agreement stipulate a twelve-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2017. As of June 30, 2008, the principal balance remaining was \$110,956. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 5,998	\$ 4,002
2010	6,231	3,769
2011	6,476	3,524
2012	6,724	2,980
2013	6,987	3,013
2014-2018	78,540	9,381
Totals	<u>\$ 110,956</u>	<u>\$ 26,669</u>

The Hitchins Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Hitchins Fire Department is under no binding agreement to make the required payments.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

H. Norton Branch Fire Department – Fire Truck

On June 30 2006, the Carter County Fiscal Court entered into a \$148,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a fourteen-year repayment schedule, with 4.5% interest payments and variable annual principal payments ending on December 20, 2020. As of June 30, 2008, the principal balance remaining was \$133,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 10,000	\$ 6,672
2010	10,000	6,169
2011	10,000	5,663
2012	10,000	5,155
2013	10,000	4,661
2014-2018	50,000	15,762
2019-2021	33,000	3,234
Totals	<u>\$ 133,000</u>	<u>\$ 47,316</u>

The Norton Branch Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Norton Branch Fire Department is under no binding agreement to make the required payments.

I. Carter County Tactical Search-Rescue Service Inc. – Rescue Truck

On January 19, 2007, the Carter County Fiscal Court and the Carter County Tactical Search-Rescue Service signed a \$19,291 promissory note with the Commercial Bank of Grayson for the acquisition of a rescue truck. Terms of the agreement stipulate a five-year repayment schedule, with a 5% stated rate of interest and annual payments of \$4,392 beginning October 1, 2007 and ending on October 11, 2011. As of June 30, 2008, the principal balance remaining was \$15,573. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 3,613	\$ 779
2010	3,794	598
2011	3,983	408
2012	4,183	209
Totals	<u>\$ 15,573</u>	<u>\$ 1,994</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

I. Carter County Tactical Search-Rescue Service Inc. – Rescue Truck

The Carter County Tactical Search-Rescue Service Inc. has agreed to make the principal payments for the term of the loan.

J. Jail Canteen Equipment

On April 20, 2006, the Carter County Fiscal Court entered into a \$5,473 agreement for a New Holland tractor to be used by Jail Canteen Fund. The agreement calls for a monthly payment of \$152 beginning May 20, 2006, to be completed with a \$137 payment on April 20, 2009. As of June 30, 2008, the principal balance remaining was \$1,509. Required future payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Business-type Activities Principal</u>
2009	\$ 1,509
Totals	<u>\$ 1,509</u>

K. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Improvement Bonds	\$ 5,665,000	\$	\$ 115,000	\$ 5,550,000	\$ 125,000
Revenue Bonds	6,400,000		285,000	6,115,000	295,000
Financing Obligations	<u>660,848</u>	<u>19,291</u>	<u>99,271</u>	<u>580,868</u>	<u>100,040</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 12,725,848</u>	<u>\$ 19,291</u>	<u>\$ 499,271</u>	<u>\$ 12,245,868</u>	<u>\$ 520,040</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Business-type Activities:</u>					
Financing obligations	<u>\$ 3,338</u>	<u>\$</u>	<u>\$ 1,829</u>	<u>\$ 1,509</u>	<u>\$ 1,509</u>
Business-type Activities:					
Long-term Liabilities	<u>\$ 3,338</u>	<u>\$</u>	<u>\$ 1,829</u>	<u>\$ 1,509</u>	<u>\$ 1,509</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2008, Carter County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustments

Net Assets of the Governmental-Type Activities as previously reported have been restated for the following reasons:

- Net assets were restated by (3,758) because of \$19,291 in financing obligations and \$15,533 of capital assets that were not reported in the prior year.
- Net assets were restated by (877,421) because capital assets reported in the prior year should have been expensed.
- Net assets were restated by (339,900) because notes receivable was being reported in the prior year in conjunction with related debt. This debt in the current year is being treated as the County's debt only.
- Beginning fund balances were increased by \$1 in the Road and Jail Fund and were decreased by \$1 in the LGEA Fund and Bond Defeasance Fund for governmental fund type. The net effect of these adjustments were zero. The beginning fund balance for the business-type activities was decreased by \$1.

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,303,000	\$ 1,303,000	\$ 1,422,727	\$ 119,727
In Lieu Tax Payments	1,000	1,000	13,700	12,700
Excess Fees	25,553	25,553	81,390	55,837
Licenses and Permits	37,650	37,650	37,813	163
Intergovernmental	290,600	394,100	311,813	(82,287)
Charges for Services	90,000	90,000	87,163	(2,837)
Miscellaneous	215,000	215,000	289,174	74,174
Interest	3,000	3,000	1,730	(1,270)
Total Revenues	1,965,803	2,069,303	2,245,510	176,207
EXPENDITURES				
General Government	1,058,737	1,177,240	1,054,529	122,711
Protection to Persons and Property	20,395	20,395	17,651	2,744
General Health and Sanitation	70,161	66,275	60,589	5,686
Debt Service	6,700	6,700	17,847	(11,147)
Administration	438,450	381,633	375,214	6,419
Total Expenditures	1,594,443	1,652,243	1,525,830	126,413
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	371,360	417,060	719,680	302,620
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(800,255)	(800,255)	(818,862)	(18,607)
Transfers From Other Funds	78,895	78,895	79,004	
Total Other Financing Sources (Uses)	(721,360)	(721,360)	(739,858)	(18,607)
Net Changes in Fund Balance	(350,000)	(304,300)	(20,178)	284,122
Fund Balance - Beginning	350,000	350,000	366,179	16,179
Fund Balance - Ending	\$ 0	\$ 45,700	\$ 346,001	\$ 300,301

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,265,048	\$ 1,734,192	\$ 1,786,487	\$ 52,295
Charges for Services		134,738	134,739	1
Miscellaneous			177,546	177,546
Interest	3,500	3,500	4,900	1,400
Total Revenues	<u>1,268,548</u>	<u>1,872,430</u>	<u>2,103,672</u>	<u>231,242</u>
EXPENDITURES				
Roads	1,272,400	2,035,327	1,601,448	433,879
Debt Service	84,600	86,400	257,668	(171,268)
Administration	261,548	250,703	210,498	40,205
Total Expenditures	<u>1,618,548</u>	<u>2,372,430</u>	<u>2,069,614</u>	<u>302,816</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(350,000)</u>	<u>(500,000)</u>	<u>34,058</u>	<u>534,058</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		150,000	150,000	
Total Other Financing Sources (Uses)		<u>150,000</u>	<u>150,000</u>	
Net Changes in Fund Balance	(350,000)	(350,000)	184,058	534,058
Fund Balance - Beginning	<u>350,000</u>	<u>350,000</u>	<u>354,027</u>	<u>4,027</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 538,085</u>	<u>\$ 538,085</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,505,600	\$ 1,505,600	\$ 1,497,618	\$ (7,982)
Charges for Services	15,000	15,000	14,126	(874)
Miscellaneous	214,500	229,500	248,493	18,993
Interest	800	800	513	(287)
Total Revenues	<u>1,735,900</u>	<u>1,750,900</u>	<u>1,760,750</u>	<u>9,850</u>
EXPENDITURES				
Protection to Persons and Property	1,397,237	1,585,093	1,567,917	17,176
Debt Service	395,318	395,318	395,318	
Administration	459,750	406,594	397,648	8,946
Total Expenditures	<u>2,252,305</u>	<u>2,387,005</u>	<u>2,360,883</u>	<u>26,122</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(516,405)</u>	<u>(636,105)</u>	<u>(600,133)</u>	<u>35,972</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	434,405	434,405	543,862	109,457
Total Other Financing Sources (Uses)	<u>434,405</u>	<u>434,405</u>	<u>543,862</u>	<u>109,457</u>
Net Changes in Fund Balance	(82,000)	(201,700)	(56,271)	145,429
Fund Balance - Beginning	<u>82,000</u>	<u>116,000</u>	<u>116,666</u>	<u>666</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (85,700)</u>	<u>\$ 60,395</u>	<u>\$ 146,095</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 590,634	\$ 916,773	\$ 944,158	\$ 27,385
Miscellaneous	2,700	2,700	32,131	29,431
Interest	500	500	1,052	552
Total Revenues	<u>593,834</u>	<u>919,973</u>	<u>977,341</u>	<u>57,368</u>
EXPENDITURES				
General Government	17,400	17,400	13,422	3,978
Protection to Persons and Property	418,415	496,531	418,009	78,522
General Health and Sanitation	152,050	156,869	140,081	16,788
Social Services	500	500		500
Recreation and Culture	262,634	289,718	289,718	
Roads		50,000	1,155	48,845
Debt Service			24,271	(24,271)
Administration	173,685	149,805	142,820	6,985
Total Expenditures	<u>1,024,684</u>	<u>1,160,823</u>	<u>1,029,476</u>	<u>131,347</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(430,850)</u>	<u>(240,850)</u>	<u>(52,135)</u>	<u>188,715</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(150,000)	(150,000)	
Transfers From Other Funds	365,850	365,850	275,000	(90,850)
Total Other Financing Sources (Uses)	<u>365,850</u>	<u>215,850</u>	<u>125,000</u>	<u>(90,850)</u>
Net Changes in Fund Balances	(65,000)	(25,000)	72,865	97,865
Fund Balances - Beginning	<u>65,000</u>	<u>65,000</u>	<u>36,467</u>	<u>(28,533)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 40,000</u>	<u>\$ 109,332</u>	<u>\$ 69,332</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

ENHANCED 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 200,000	\$ 200,000	\$ 202,417	\$ 2,417
Intergovernmental Revenue	85,000	85,000	123,738	38,738
Miscellaneous		37,000	38,093	1,093
Interest	500	500	1,395	895
Total Revenues	<u>285,500</u>	<u>322,500</u>	<u>365,643</u>	<u>43,143</u>
EXPENDITURES				
Protection to Persons and Property	304,250	368,750	277,424	91,326
Administration	81,250	53,750	46,604	7,146
Total Expenditures	<u>385,500</u>	<u>422,500</u>	<u>324,028</u>	<u>98,472</u>
Net Changes in Fund Balances	(100,000)	(100,000)	41,615	141,615
Fund Balances - Beginning	<u>100,000</u>	<u>100,000</u>	<u>149,730</u>	<u>49,730</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 191,345</u>	<u>\$ 191,345</u>

CARTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Justice Center Corporation Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Forestry Fund
ASSETS	
Cash and Cash Equivalents	\$ 13,985
Total Assets	<u>13,985</u>
FUND BALANCES	
Unreserved:	
Special Revenue Funds	<u>13,985</u>
Total Fund Balances	<u>\$ 13,985</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	Forestry Fund	Governor's Surplus Spending Fund	Bond Defeasance Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$ 3,908	\$	\$	\$ 3,908
Interest		3	44	47
Total Revenues	<u>3,908</u>	<u>3</u>	<u>44</u>	<u>3,955</u>
EXPENDITURES				
Protection to Persons and Property	<u>3,456</u>			<u>3,456</u>
Total Expenditures	<u>3,456</u>			<u>3,456</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>452</u>	<u>3</u>	<u>44</u>	<u>499</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(11,500)	(67,504)	(79,004)
Total Other Financing Sources (Uses)		<u>(11,500)</u>	<u>(67,504)</u>	<u>(79,004)</u>
Net Change in Fund Balances	452	(11,497)	(67,460)	(78,505)
Fund Balances - Beginning	13,533	11,497	67,460	92,490
Fund Balances - Ending	<u>\$ 13,985</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,985</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 24, 2009. Carter County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carter County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Carter County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations, items 2008-1 and 2008-2, to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider item 2008-02 to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Carter County's financial statements for the year ended June 30, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2008-01.

The Carter County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 24, 2009

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2008

FINANCIAL STATEMENT FINDINGS

2008-01 The Fiscal Court Should Pay All Invoices Within (30) Working Days As Required By
 KRS 65.140 And Improve Internal Controls Over Expenditures

The Fiscal Court is not in compliance with KRS 65.140. This statute requires that all purchases for goods or services be paid within (30) working days. KRS 65.140 (2) allows payments to be delayed past the (30) working days when the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor. We could find no evidence that would exempt the Fiscal Court from not paying the following invoices within the required (30) working days:

- Invoice #153022-1 dated June 29, 2006 from Mountain Enterprises, Inc for the purchase of asphalt in the amount of \$61,778. As of August 29, 2007, this invoice had a balance of \$30,801 and had not been paid. We could not determine from the accounting records when or if the Fiscal Court has paid the balance due for the purchase of the Asphalt.
- Invoice #173022-1A dated November 30, 2007 from Mountain Enterprises, Inc for the purchase of asphalt that was used for repairs to Belles Trace Road in the amount of \$135,930. This Invoice was paid March 27, 2008. We later discovered a company that was installing a pipeline in the county issued a check in advance to the Carter County Fiscal Court dated August 15, 2007 in the amount of \$134,739 for repairing Belles Trace Road that was damaged during the construction.
- Invoice #70500017 dated July 14, 2005 from Mountain Enterprises, Inc for the purchase of asphalt in the amount of \$30,307. This invoice was paid September 10, 2008. This invoice came to our attention during expanded procedures to determine if this was an ongoing internal control problem.

The late payment of the above invoices indicates the Fiscal Court has a material weakness in its internal controls over its accounting for expenditures. Either the controls in place are not working as planned or management has chosen to ignore or override the controls in place. Our documented understanding of the controls is that all invoices received in the County Judge/Executive's Office be included on the payments list prepared by the Judge/Executive's staff and along with the invoices, delivered to the County Treasurer's Office for review before being presented at the Fiscal Court meeting for approval.

We recommend the Fiscal Court implement procedures to ensure that all invoices received in Judge/Executive's Office are put on the payments list that is to be delivered to the County Treasurer for review before submission to the Fiscal Court for approval. In addition, we recommend that if the Fiscal Court decides not to pay an invoice that has been outstanding for (30) working days that they comply with the requirements of KRS 65.140(2) by documenting the basis for the delayed payment of the invoice.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-01 The Fiscal Court Should Pay All Invoices Within (30) Working Days As Required By KRS 65.140 And Improve Internal Controls Over Expenditures
(Continued)

County Judge/Executive Charles Wallace's Response: Invoice #153022 - this contractor did not complete the job. The present purchase order was closed and no other invoice was submitted for payment. After invoice was resubmitted then a new PO was issued for payment.

Invoice#173022-1A - Carter County wasn't invoiced until December 2007, a budget amendment had to drawn up and sent to Frankfort, Kentucky for approval. The budget amendment was approved in January court meeting. Then it was sent to Frankfort and then back to the Carter County Fiscal Court for approval and it was then approved in March meeting and payment was made.

Invoice#70500017 - The vendor had switched Ownership during this time period. Upon their books being audited this vendor's invoice was found but they did not have a purchase order from Carter County to tie the invoice with. There wasn't a purchase order number attached to the invoice and therefore could not be tracked down for payment to submit to the Fiscal Court. The Carter County Fiscal Court meets once a month if bills are not received by the 30th of each month then the bills are held over until the next fiscal court meeting. If the treasurer or magistrates doesn't approve the bills at that time then the bills may be held over as long as 60-90 days. The Judge cannot issue the bill to be paid.

All invoices submitted must have the correct purchase order no# attached. (Since all purchase orders are suppose to be generated out of the judges office) if not, the office manager does not approve any of the invoices.

2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in each of these functions.

The County Treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations.

To adequately protect the fiscal court against inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive Charles Wallace's Response: The County Judge has requested a finance officer to keep all things in checks and balances against the treasurer's records and to make sure her records are also kept in check and balances.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CARTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

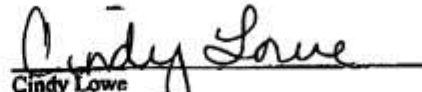
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2008

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles Wallace
Carter County Judge/Executive



Cindy Lowe
Carter County Treasurer

